

ALAN LeBOVIDGE  
COMMISSIONER

# *The Commonwealth of Massachusetts*

## *Department of Revenue*

*Office of the Commissioner*

*P.O. Box 9550*

*Boston, MA 02114-9550*

September 1, 2004

Eric Kriss, Secretary  
Executive Office for Administration and Finance  
The Commonwealth of Massachusetts  
State House, Room 373  
Boston, MA 02133

The Hon. Therese Murray, Chair  
Senate Committee on Ways and Means  
Commonwealth of Massachusetts  
State House, Room 212  
Boston, MA 02133

The Hon. John H. Rogers, Chair  
House Committee on Ways and Means  
Commonwealth of Massachusetts  
State House, Room 243  
Boston, MA 02133

Dear Secretary Kriss, Chairperson Murray and Chairperson Rogers:

Section 1 of Chapter 169 of the Acts of 2004 indicates that the City of Springfield's financial crisis poses an imminent danger to the safety of the citizens of the city. That section goes on to indicate that special acts approved in 1989, 1991 and 1996 have not been successful in achieving fiscal stability for the city. Therefore, the 2004 Act established a finance control board to initiate and implement extraordinary remedies to achieve a long-term solution. Pursuant to the requirement of Section 4A of the Act, I am writing as Chairperson of the Springfield Finance Control Board (hereinafter the "FCB") to give you a preliminary analysis of the fiscal crisis in Springfield and to outline a plan to address the city's operating and structural deficits.

Our primary focus has been to determine whether the city's previously announced projected fiscal 2005 budget deficit of \$20–25 million was accurate and to develop a balanced fiscal 2005 budget by the end of September.

A central point in the current legislation is the requirement that any money advanced from the trust fund to the city be in the form of an **interest free loan** to be repaid from fiscal 2008 through fiscal 2012. Consequently, any money loaned from the trust fund to meet short-term cash shortfalls will only act to defer the current crisis unless substantive changes can be achieved to repay the loans and eliminate any structural deficit. Also, our analysis presumes that the city must develop solutions to achieve annual balanced budgets prospectively without anticipating any further extraordinary state financing beyond the normal local aid payments made to all cities and towns within the Commonwealth.

Our preliminary analysis indicates that conditions are *significantly worse* than previously known by city officials.

Inadequate financial systems and controls masked the true extent of the city's current fiscal situation. For example:

- Critical transactions of the treasurer, assessor and auditor are conducted manually without computer automation.
- Vital property tax information remains on 3x5 cards stored in file cabinets.
- Ledgers required for fiscal control are balanced by hand.

Given those and other shortcomings, including the lack of adequate staff, an accurate accounting of the fiscal 2005 operating deficit is extremely difficult to determine and may not be achievable within any acceptable timeframe. Therefore, our efforts have been focused on developing reasonable estimates.

As previously indicated, at the time that the Springfield fiscal relief legislation was filed by Governor Romney, the fiscal 2005 budget deficit was projected to be in the \$20-25 million range. **We now estimate the deficit to be nearly twice the original projection.**

This revised estimate does not reflect an escalating deterioration; rather this is a more realistic assessment of pre-existing conditions. For example, the prior deficit projection did not fully reflect:

- Changes in health care costs as well as the total amount owed to the health care administrator.
- Provisions for uncollectible tax receivables.
- A realistic evaluation of prior period bad debts.

In addition, please note that the above revised projected deficit does **not** include such matters as costs associated with deferred maintenance, necessary infrastructure investment in information technology, potential litigation costs, step raises and other postponed costs, e.g., accrued sick and vacation pay. These additional costs could increase the deficit to as much as \$60 million.

Normal accounting conventions, such as the allowance for the recognition of 100 percent of the real estate tax bills as collectible, cannot be justified in Springfield's situation. Not only has the city's collection rate been well below that percentage and its current past due collections basically nonexistent, but also the decline in underlying property values makes it unreasonable to assume that the imposition of tax liens on the property will be able to protect the financial exposure to the city to ensure collection upon sale or foreclosure of the property. Such accounting conventions should not be available to the city to defer budget shortfalls, nor should they be continued, given the magnitude of the fiscal crisis.

From a cash flow perspective, the city is projected to deplete its reserves by mid-September. Consequently, the FCB has already voted to ask Secretary Kriss for up to \$15 million in emergency cash borrowing. This borrowing is necessary so that the city can meet its current cash needs and avoid a cash crisis during the month of September without incurring additional interest costs. The formal request and necessary documentation associated with this borrowing will be submitted next week.

Most if not all of the available trust fund will be needed to satisfy prior and current obligations. Even if all outstanding "one time" debts and the current deficit are paid with state-provided emergency funds, **the current fiscal crisis would not be eliminated**. Given the city's existing situation, our preliminary analysis indicates that continuing business as usual will only result in the generation of new deficits that would have to be met by large, ongoing, and increasing annual state aid. This is **before** any consideration of the debt repayment schedule required by the enabling legislation. Assuming that the entire \$52 million trust fund is spent, this effectively increases the annual funding requirements on a pro rata basis by \$10 million for years 2008-2012. More definitive details of this current operational deficit will be available upon the submission of the 9/12 fiscal 2005 budget due by the end of September.

The FCB believes that there are several options to increase revenues and reduce expenditures that will be considered over the next few months. The FCB will shortly take specific actions to:

- Collect back taxes, including the use of professional collection agencies,
- Cut all non-essential services,
- Conform all city policies, work rules, and processes to demonstrated cost-effective practices,

- Reduce the cost of health care benefits via competitive bidding,
- Work with the school department to ensure that its dollars produce the maximum value to the city's taxpayers, and
- Examine the city's current busing policy to determine whether constructive changes can be made to meet the underlying goals of the city's desegregation plan while reducing the city's transportation costs.

Some of these actions, such as the rebidding of health care contracts, were already underway by the current administration.

The FCB will, also, be examining the viability of increasing revenues. Items such as the institution of a payment-in-lieu of taxes program should be considered. It should be noted, however, that the FCB has recently been made aware of the fact that one of the city's largest property taxpayers has, by changing its legal form of doing business, taken the position that is no longer liable for local property taxes. While the city is challenging this position, the short-term result is that this \$4.5 million shortfall will have to be reallocated among the remaining tax base. This will result in property taxes being increased for every taxpayer without regard to any increase in the levy limit. Consequently, focusing on general revenue increases as a way to solve the City's fiscal crisis may be of limited value.

The FCB's preliminary conclusion is that revenue increases and non-labor- related cost savings can only partly reduce the deficit. **They will not eliminate it.**

No solution to the City's fiscal crisis can be achieved without a substantial reduction of personnel costs and expenses. Between 75-80 percent of the city's annual expenditures relate to wages and benefits paid. Municipal collective bargaining must reflect the reality of Springfield's economic situation. Some combination of increases in economic productivity, reduction of wages and benefits, and work rule changes must be accomplished if the city is to have annual balanced budgets. The FCB does not believe, however, that the city can resort to additional, excessive layoffs as the primary cost reduction mechanism; this course of action has already taken place in prior years. Indeed, the FCB has just this week authorized the hiring of additional police and fire department resources to bolster these critical frontline, depleted resources.

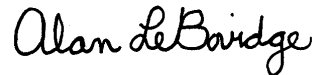
It is clear that an integral part of the recovery plan for the city of Springfield must include work rule changes, benefits restructuring and take-home pay reductions for municipal workers. As a result, collective bargaining should get underway shortly. This process will involve 29 bargaining unit contracts.

Secretary Eric Kriss  
Chairperson Therese Murray  
Chairperson John H. Rogers  
September 1, 2004  
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In closing, on behalf of the FCB I would like to thank the citizens of Springfield and the city workers who have been working with the FCB for their support of our endeavors to date. In the short time that the FCB has been in existence, we have toured the city and have met with many individuals to gain a first-hand understanding of the day-to-day issues. Everywhere the people have displayed a pride in their city and have indicated a strong desire to turn the city around.

I hope that this preliminary assessment has been helpful to you. Should you have any questions, please feel free to contact me directly.

Very truly yours,

A handwritten signature in black ink that reads "Alan LeBovidge". The script is cursive and fluid, with the first letters of the first and last names being capitalized and prominent.

Alan LeBovidge, Chairperson  
Springfield Finance Control Board

ALL:mr

cc: Finance Control Board Members